

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of)
Kingdom Telephone Company for)
Authority to Borrow an Amount Not to)
Exceed \$5,000,000 from CoBank Under a)
Twelve (12) Year Secured Credit Facility)
and in Connection Therewith to Execute a)
Lien and Security Interest.)

Case No. IF-2008-0139

STAFF RECOMMENDATION

COMES NOW the Staff (“Staff”) of the Missouri Public Service Commission (“Commission”) and for its Recommendation in the above-styled proceeding, respectfully states as follows:

1. On November 2, 2007, Kingdom Telephone Company, Inc. (“Kingdom Telephone” or “Company”) filed, pursuant to Sections 392.300 and 392.310 RSMo 2000 and 4 CSR 240-3.530, an Application requesting authority to borrow certain sums, not to exceed \$5,000,000 through a 12-year secured credit facility from CoBank, ACB (“CoBank”).

2. Section 392.300.1 RSMo provides that no telecommunications company shall mortgage or otherwise encumber the whole or any part of its franchise, facilities or system, necessary or useful in the performance of its duties to the public without having first secured from the Commission an order authorizing it to do so. Section 392.310.1 provides that a telecommunications company may, when authorized by order of the Commission, issue notes or other evidence of indebtedness payable at periods of more than twelve months when necessary for the acquisition of property, the construction, completion, extension or improvements of its facilities or the improvement or maintenance of its service within the state, or for the discharge or lawful refunding of its obligations, or reimbursement of moneys actually expended from the

income from any source, within five years next prior to the filing of the application therefor, or for any such purposes.

3. The applicable standard is whether this transaction is detrimental to the public interest. See, *In the Matter of the Application of Le-Ru Telephone Company*, 9 Mo. P.S.C. 3d 331, 334 (2000).

4. Section 386.300 RSMo directs the Commission to charge a fee for authorizing an issue of bonds, notes or evidences of indebtedness.

5. In its Order Directing Filing, issued November 7, 2007, the Commission directed the Staff to file a Memorandum and Recommendation no later than December 3, 2007.

6. Attached as Appendix A is the Staff's Memorandum indicating that the proposed financing is for proper purposes and is not detrimental to the public interest. The Staff recommends that the Commission approve the Company's Application, subject to a number of conditions as set forth in the Memorandum.

WHEREFORE, the Staff respectfully recommends that that the Commission issue an Order approving Kingdom Telephone's November 2, 2007 Application, subject to the conditions set forth in the attached Memorandum.

Respectfully submitted,

/s/ **Dennis L. Frey**

Dennis L. Frey
Senior Counsel
Missouri Bar No. 44697

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Missouri Public Service Commission
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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 3rd day of December 2007.

/s/ **Dennis L. Frey**

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. IF-2008-0139, Kingdom Telephone Company, Incorporated

FROM: Matt Barnes, Regulatory Auditor III - Financial Analysis Department
Mick Johnson, Technical Specialist II – Telecommunications Department

/s/ Matt Barnes 12/03/07

/s/ Dennis L. Frey 12/03/07

Project Coordinator / Date

General Counsel's Office / Date

SUBJECT: Staff Recommendation for approval of Kingdom Telephone Company, Inc. to enter into a Secured Credit Facility substantially in the form of a Master Loan Agreement and First Supplement to the Master Loan Agreement for a total sum not to exceed \$5,000,000.

DATE: December 3, 2007

1. (a) **Type of Issue:** Master Loan Agreement, First Supplement to the Master Loan Agreement, Promissory Note, Mortgage, Security Agreement and Financing Statement
 - (b) **Amount:** Up to \$5,000,000 for twelve (12) years
 - (c) **Rate:** According to the Commitment Letter attached to the Company's Application: "The Borrower may choose from among the following interest rate options: [1] The weekly Quoted Variable Rate is the rate of interest established by CoBank on the first business day of each week and shall be effective until the first business day of the next week...[2] In addition to the rate option above, the Borrower may choose a fixed rate ('Quoted Fixed Rate') on advances with a maturity of from one year to the Maturity Date, to be quoted at CoBank's sole discretion. Certain limitations on the number of fixes will apply."
 - (d) **Other Provisions:** According to Section 8, Sub-section I of the Master Loan Agreement, the Borrower shall maintain at all times a Total Leverage Ratio of not more than 3.50, Debt Service Coverage Ratio of not less than 2.00 and Equity to Asset Ratio of not less than 25 percent.
2. **Proposed Date of Transaction:** As soon as Commission approval is granted.
 - (a) **Statement of Purpose of the Issue:** The general terms and conditions to be contained in the note and loan agreement provide for a loan in a total amount up to \$5,000,000 with a repayment term and interest rate as set forth in the Master Loan Agreement and First Supplement to the Master Loan Agreement.

- (b) **From a financial perspective, does Staff deem this purpose reasonable?**
Yes X No
3. **Type of Transaction:** The Applicant proposes to borrow certain sums, not to exceed \$5,000,000 from the CoBank, ACB. CoBank is part of the Farm Credit System, which is a nationwide financial cooperative that lends money and provides financial services to agriculture and rural America.
4. **Copies of executed instruments defining terms of the proposed securities:**
- ___ (a) If such instruments have been previously filed with the Commission, a reference to the Case Number in which the instruments were furnished.
- X (b) If such instruments have not been executed at the time of filing, a statement of the general terms and conditions to be contained in the instruments which are proposed to be executed.
- ___ (c) If no such instruments are either executed or to be executed, a statement of how the securities are to be sold.
5. **Certified copy of resolution of the directors of applicant, or other legal documents authorizing the issuance of the securities reviewed:**
Yes X No
6. **Pro-forma Balance Sheet, Cash Flow and Income Statement reviewed:**
Yes X No
7. **Capital expenditure schedule reviewed:**
Yes X No
8. **Journal entries are required to be filed by the Company to allow for the Fee Schedule to be applied:**
Yes X No
9. **Recommendation of the Staff:**
- X Grant by session order (see Comments)
- ___ Conditional Approval granted pending receipt of definite terms of issuance (see Comments)
- ___ Require additional and/or revised data before approval can be granted (see Comments)
- ___ Formal hearing required (see Comments)
- ___ Recommend dismissal (see Comments)

COMMENTS:

Kingdom Telephone Company, Incorporated (Kingdom Telephone or Company), states in its Application:

Applicant is subject to the jurisdiction of the Commission and is engaged generally in providing telecommunications service to customers in seven (7) exchanges located in the Missouri counties of Audrain, Calloway, and Montgomery, as shown by its exchange area maps on file with and approved by this Commission.

Applicant proposes to borrow certain sums, not to exceed \$5,000,000, through a 12-year secured credit facility from CoBank, ACB ("CoBank") in order to fund various capital improvements, finance operating needs, and for general corporate purposes. CoBank is part of the Farm Credit System, which is a nationwide financial cooperative that lends money and provides financial services to agriculture and rural America.

Total Debt to Total Capital Ratio

This financing will not cause a significant change in the Company's consolidated pro forma capital structure. As of February 26, 2007, the Company paid off the remaining balance of \$1,340,905 in cash owed to Rural Utility Service (RUS). This reduced the Company's Total Debt to Total Capital Ratio to zero. Assuming the Company borrows the full amount of \$5,000,000 the pro-forma Total Debt to Total Capital Ratio is anticipated to be ** ** percent. Please see Attachment 1 to this Memorandum.

Total Leverage Ratio (TLR)

A maximum TLR is required by CoBank as part of the loan agreement, which states that the Company must maintain this ratio "of not more than 3.50." The TLR ratio as stated in the covenants is calculated by dividing total debt (not including interest expense) by EBITDA (Earnings Before Interest Taxes Depreciation and Amortization). EBITDA as stated in the covenants is calculated as operating revenues minus operating expenses plus depreciation and amortization expenses. The Company's pro-forma TLR ratio is anticipated to be ** **. This is well below CoBank's requirement of no more than 3.50. Please see Attachment 2 to this Memorandum.

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Debt Service Coverage (DSC)

A minimum DSC ratio is required by CoBank as part of the loan agreement, which states that the Company must maintain this ratio “at no less than 2.00.” The DSC ratio as stated in the covenants is calculated by dividing EBITDA by total principal payments plus interest expense. The Company’s pro-forma DSC ratio is anticipated to be ** **. This is well above CoBank’s requirement of no less than 2.00. Please see Attachment 3 to this Memorandum.

Equity to Asset Ratio

A minimum Equity to Asset ratio is required by CoBank as part of the loan agreement, which states that the Company must maintain this ratio “of not less than 25%”. The Equity to Asset ratio as stated in the covenants is calculated by dividing the result of total assets minus total liabilities by total assets. The Company’s pro-forma Equity to Asset Ratio is anticipated to be ** % percent. This is well above CoBank’s requirement of no less than 25 percent. Please see Attachment 4 to this Memorandum.

Telecommunications Facilities Analysis

Over the past five (5) years, Kingdom Telephone has invested \$7,488,769 in operating plant with internally generated funds. Earlier this year, Kingdom paid off the remaining balance of its prior financing with RUS, so the proposed financing will reimburse moneys previously expended on plant but also provide funding for various capital improvement projects. Following a review of the proposed use of funds with the local manager of Kingdom Telephone, the Telecommunications Department Staff believes that the use of the funds is reasonable. **

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Based on Staff’s review, the transaction is not detrimental to the public interest. Staff recommends that the Commission approve Kingdom Telephone’s Application for authority to borrow funds to finance items of the projects proposed in the Application. Installation of telecommunications equipment is subject to guidelines established by the Commission rules, the National Electric Code (NEC 2008), the National Electric Safety Code (NESC 2007) and Rural Utilities Service (RUS) standards.

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RECOMMENDATION

Staff recommends that Kingdom Telephone Company be approved to borrow up to \$5,000,000 from CoBank. Based upon its separate review, Staff recommends that the Commission approve the Application submitted by the Company as not detrimental to the public interest in this case subject to the following conditions:

1. That nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction for rate making purposes, and that the Commission reserves the right to consider the rate making treatment to be afforded this financing transaction and its impact on cost of capital, in any later proceeding.
2. That the Company shall file with the Commission any information concerning deviations from all final terms and conditions on this financing in its Application including, but not limited to, the aggregate principal amount to be sold or borrowed, price information, estimated expenses, and portion subject to the fee schedule and loan or indenture agreement concerning each issuance.
3. That the Company shall file with the Commission any information concerning deviations from the use of the funds stated in its Application that would materially change the pro forma capitalization and financial ratios submitted with its Application.
4. That within thirty (30) days after execution of draw-down, the Company shall file a report with the Commission's Budget and Fiscal Services Department reflecting the amount of the draw-down and use of the proceeds so that the fee schedule may be applied.
5. Finding that the money, property and labor to be procured by this transaction is reasonably required for the purposes specified above, and that no part of the proceeds shall be reasonably chargeable to operating expenses or to income.
6. Granting such further relief in this matter as the Commission may deem necessary.

Attachments: 1 Historical and Pro Forma Capitalization
 2 Pro-Forma Total Leverage Ratio
 3 Pro-Forma DSC Ratio
 4 Pro-Forma Equity to Asset Ratio

Pro-Forma Capital Structure

Capital Component	Pro-Forma	
Common Equity	**	**
Preferred Stock	**	**
Long-Term Debt	**	**
Depreciation & Amortization	**	**
Total	**	**

Long-Term Debt

Capital Structure	2006	
Common Equity	**	**
Preferred Stock	**	**
Long-Term Debt	**	**
Short-Term Debt	**	**
Total	**	**

Source: Appendix 7 of Kingdom Telephone
Company's Finance Application

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Pro-Forma Total Leverage Ratio

Total Leverage Ratio	Pro-Forma	
Operating Revenue -	**	**
Operating Expenses +	**	**
Depreciation & Amortization	**	**
EBITDA	**	**
Long-Term Debt	**	**
Total Leverage Ratio	**	**

Source: Appendix 7 attached to the Company's
Finance Application

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Pro-Forma DSC Coverage Ratio

Debt Service Coverage Ratio	Pro-Forma	
Operating Revenue -	**	**
Operating Expenses +	**	**
Depreciation & Amortization	**	**
EBITDA	**	**
Long-Term Debt	**	**
Principal Payment	**	**
Total Interest and Principal	**	**
Debt Service Coverage Ratio	**	**

Source: Appendix 7 attached to the Company's
Finance Application

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Equity to Asset Ratio

Equity to Asset Ratio	Pro-Forma	
Total Assets -	**	**
Total Liabilities	**	**
Depreciation & Amortization	**	**
Long-Term Debt	**	**

Source: Appendix 7 attached to the Company's
Finance Application

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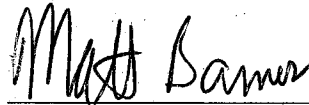
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AFFIDAVIT OF MATT BARNES

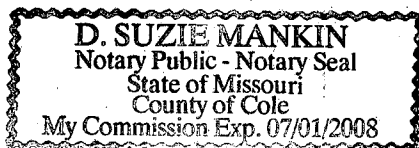
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

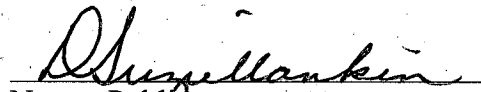
Matt Barnes, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.



Matt Barnes

Subscribed and sworn to before me this 3rd day of December, 2007.





Notary Public